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Editorial

One of the victims of COVID-19 is Australia as a private sector, market-based economy. It's become a public-subsidised economy. The economic downturn is disguised in the official numbers. Last week, unemployment in April rose only 1% from 5.2% to 6.2%. Seems like a good result. But looking deeper, with 12.9 million employed people in Australia, net job losses were 594,000. That's more like 5%, not 1%, but because most of them were deemed no longer looking for work, they were not counted as unemployed. Worse, 6.3 million are on JobKeeper and about 1.6 million are on JobSeeker.

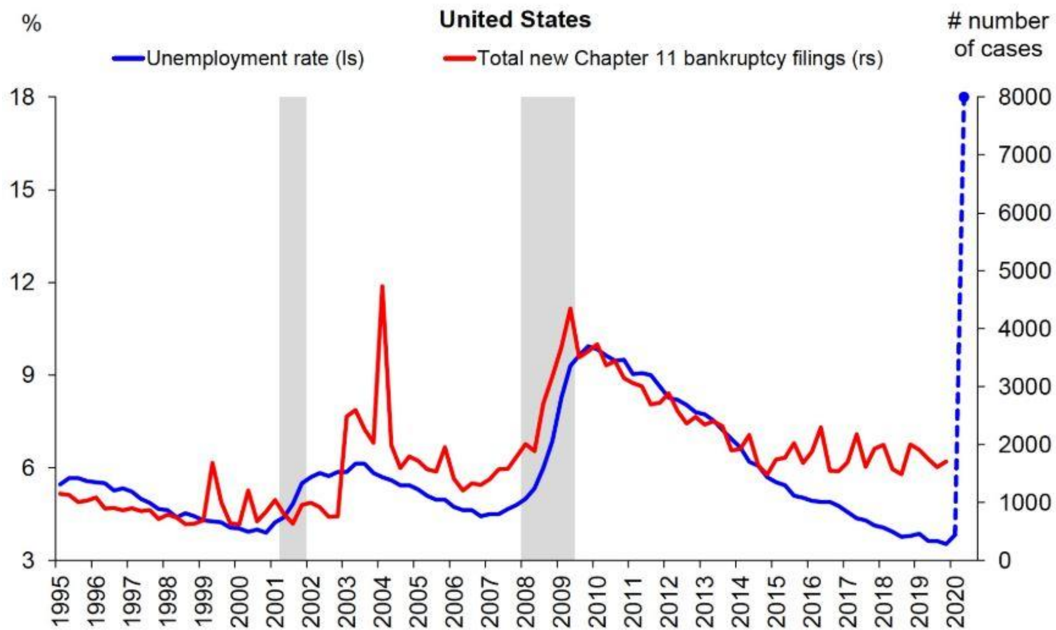
Add it all up and about 70% of workers are either unemployed, paid by the Government or they have given up looking. The monthly hours of work lost was more like 10%, as shown in the ABS statement on jobs.

The **ABS** has even decided that JobKeeper payments will be included in the national accounts, making the forthcoming GDP figures much better than expected. Is that really 'production', a measure of the economy's size?

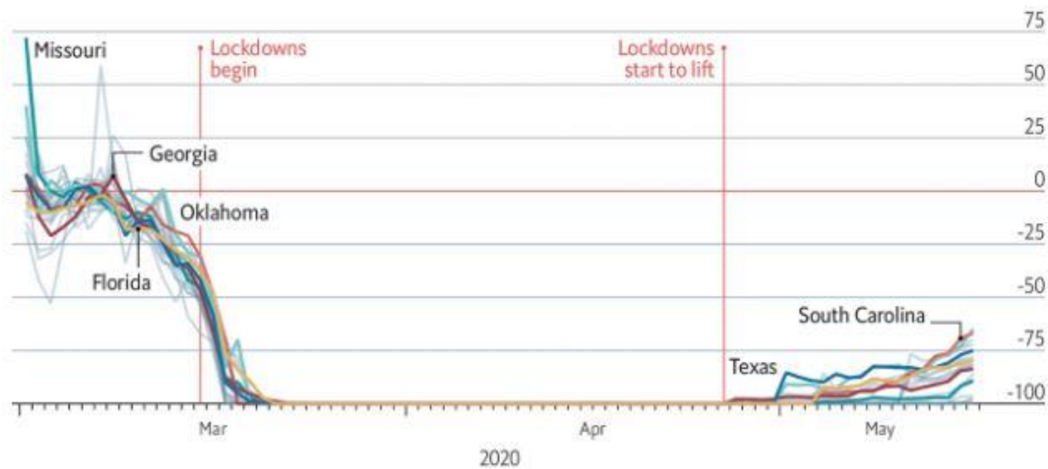
The **Australian Bankers Association** last week advised that almost 10% of mortgage payments have been deferred, and overall, the total number of loans deferred is over 700,000 worth $211 billion. Interest is still accruing but unpaid, leaving many borrowers with more debt than at the start of the crisis. What happens at the end of the deferral period, just as JobKeeper is supposed to finish?

In this context, in our first article, **Dr David Morgan** AO, former CEO of **Westpac** and now Chairman of **Chi-X**, provides an excellent review of his expectations for the recovery, taking a big picture view on the slow bounce back.

One of the factors the bulls are relying on is the "Don't fight the Fed' injection of trillions of dollars into the US economy. But liquidity is not solvency. Making money available to buy the debt of a struggling company does not make it a good company, and US earnings reported for Q1 2020 were down 64% year-on-year. As the chart below shows, US bankruptcies often follow the US unemployment rate.



As *The Economist* reports this week, data from **OpenTable**, a restaurant-booking website, shows people stopped attending restaurants well before the lockdowns, and are now not returning in big numbers after restrictions were lifted. OpenTable estimates one-quarter of restaurants will never open again.



It's a quip but not as ridiculous as it sounds to say the **Federal Reserve** has begun human trials of a bankruptcy vaccine. Take a look at this amazing [US debt database](#).

If there's one factor which ensures Australia will not be immune from fall out, it is the decline in net overseas migration, which has driven the majority of Australia's strong population growth in recent years. The Government expects a decline of 85% on 2020/21, versus 240,000 last year. We have already seen a 99% drop in overseas visitors to Australia during April, with over 50,000 net departure.

These declines will have profound implications for employment and housing demand, including falling rent on residential real estate.

Will the crisis drive a major policy rethink? **Phil Ruthven** takes a critical look at the claim that COVID-19 opens [opportunities for policy reforms](#) by checking how Australia may fare in three crucial areas needed for productivity to prosper.

Even those who have not been watching the amazing Netflix series on **Michael Jordan**, *The Last Dance*, have probably read the media feedback. **Jonathan Hoyle** weighs into the controversial subject of whether business can learn anything from Jordan's single-minded winning ways. (As an aside, Jordan's signed and match-worn *Nike Air Jordan* sneakers from his rookie season in 1985 fetched $US560,000 in an online auction a few days ago, an all-time record price for signature sneakers).

Back to the world of investing, there are more people looking for 'the next big thing' than ever before. **Charles Dalziell** asks whether a long-term investor should bother.

One asset class that has seen major price falls and only modest recoveries is the listed property trusts, or A-REITs. **Adrian Harrington** says they are not all equal, and he checks listed versus unlisted outcomes.

Back on debt funding by governments, **Miles Staude** explores the limits and shows why risk is heightened in all markets. Then **Mike Murray** uncovers a healthcare stock that is not only defensive in the crisis but offers good growth opportunties.

Finally, two articles on management of personal finances. **Brendan Ryan** explains a surprising ability of relatively wealthy investofrs to access government benefits, while **Anthony Cullen** says it is vital that two new measures to help in the crisis are properly understood.

In this week's White Paper, **Legg Mason** affiliate **Western Asset** describes their outlook for the June 2020 quarter, seeing more of a U-shape than V-shape. In the updates below, the **BetaShares** April ETF Report shows that sector continues to grow and is back above $60 billion.

Baseline outlook for economic recovery is too optimistic

Dr David Morgan AO

The purpose of this note is to provide some observations on the world economic outlook (WEO). While there are many global economic forecasts out there, the pre-eminent world economic outlook is that produced by the IMF. They bring to bear an unparalleled depth and breadth of economic experience and expertise to the task. The IMF's WEO is not top down, but the aggregation of 189 individual country forecasts from the respective IMF country specialists. These forecasts are generally (but not always, of which more below) untainted by political pressure.

Baseline forecast

The IMF's baseline forecast is for a decline in world output of 3% for world output in 2020 and 6% for advanced economies output. This is much worse than the GFC downturn (when world output was broadly flat) and would represent the worst recession since the Great Depression (The decline in advanced economies output in the Great Depression 1929-32 was estimated to be around 16%.)

Usually, the balance of risks around the IMF's baseline scenario are fairly even as between upside and downside. Not this time around. The IMF notes: *"much worse growth outcomes are possible and maybe even likely ... risks of a worse outcome predominate."* (WEO April 2020, Ch1, pg. v).

It then presents three alternative scenarios:
a) longer coronavirus outbreak in 2020
b) new outbreak in 2021, and
c) a combination of (a) and (b).

These scenarios produce significantly longer and deeper world real output declines, between 3% and 8% worse than the baseline decline of 3%.

Unique nature of this crisis

This crisis is like no other.

First, the shock is very large. The speed and extent of output loss associated with this health emergency and related containment measures dwarfs those associated with the global financial crisis.

Second, under current circumstances there is a different role for economic policy. In normal crises, policymakers try to encourage economic activity by stimulating aggregate demand as quickly as possible. This time, the crisis is to a large extent the consequence of needed containment measures. This makes stimulating activity more challenging and, at least for the most affected sectors, undesirable.

Third, the uncertainty around the outlook is extreme and much greater than usual. The extent and duration of the economic fallout depends on (inter alia):
a) the pathway of the pandemic
b) the intensity and efficacy of containment efforts
c) the extent of supply disruptions
d) the repercussions of the dramatic tightening in global financial market conditions
e) shifts in spending patterns
f) behavioural changes (such as people avoiding shopping malls and public transportation)
g) confidence effects, and
h) volatile commodity prices.

So, we could just throw our hands up in the air and say 'this time around, it's simply too hard'. But, in the meantime, of course we all have to get on with our lives. Having no macro view whatsoever is generally unhelpful for many of those. At a minimum, it makes sense to have some view on at least the mainstream scenario.

Mainstream macro view

I believe there is a mainstream macro view in the market at present. It is probably closest to the IMF baseline scenario. It is often referred to as the 'V-shaped recovery' scenario. It would seem to be the most likely scenario underpinning the US stock market at present (although the 25% weighting of tech stocks, and 15% weighting of healthcare stocks, are also factors in the elevated level of the S&P 500 at present; as of course is the record low level of bond yields).

This scenario may well turn out to the correct. However, in my view, even if its optimism turns out to be correct regarding the pathway of the pandemic, I believe it is overly optimistic regarding the speed and the extent of the recovery in real output.

IMF baseline overly optimistic

The IMF's baseline forecast is now overly optimistic. First, and mainly, because of developments in the period since the forecasts were finalised on 7 April. Second, as noted, the IMF forecasts are based on an aggregation of individual country forecasts. Those forecasts are too optimistic for emerging market and developing countries taken as a whole, excluding China. These countries comprise about 40% of global GDP. As of 7 April, a number of these countries were extremely reluctant to concede they were facing major coronavirus challenges and economic recession. These countries are not infrequently characterised by relatively weak governance and health systems.

Additional factors indicating longer and deeper recession

In addition to these factors, I believe the baseline forecast is too sanguine in a variety of other respects, including:
a) confidence and sentiment effects
b) the likely responses of firms and households, and
c) rapid structural changes, especially concerning globalisation, digitalisation and automation.

The **first** key structural shift in the future stimulated by the current crisis will be to a different balance between globalisation and national self-reliance. Of course, global trade tensions were already on the horizon before the pandemic. These focused on China, including their dominance in global manufacturing supply chains. Following the pandemic, these tensions will be accompanied by advanced countries in particular pursuing increased self-sufficiency in key necessities. Supply chains will become more local, less global, more robust. The costs and benefits of globalisation will be reassessed, with a move back in the direction of economic nationalism. This will take time, involve disruption, and lower economic growth.

A **second** big development will be to accelerate markedly the trend to digitalisation and automation of work. The share of in-person services will decline in retail, hospitality, travel, education, health care and government. For in-person retail, in particular, much of the temporary lockdown will prove permanent. Many retail stores will not reopen. Many low/medium skill, in-person service jobs won't return. We will be sharply accelerating the

move to a much less labour-intensive production function. Hence structural unemployment is likely to increase significantly.

A **third** development will be heightened risk aversion on the part of business and, particularly, households. One of the remarkable features of this downturn is the extent of the decline in private consumption expenditure. In most downturns, the brunt is borne by major reductions in private investment and trade, with some relatively minor reduction in consumption expenditure (focused mainly on delay of purchase of consumer durables). Private consumption would typically fall in such downturns by less than a percentage point or so.

This time around, the major hit is to private consumption, especially consumption of services. In South Korea's first quarter GDP (the first major country GDP release after China), private consumption dropped by a staggering 23% at an annualised rate. (US Q1 GDP data came out on April 30, it showed a 4.8% decline in GDP). Moreover, most of this drop in Korea was on consumption of services, which for the most part can't be made up later, like a delayed new car purchase. This phenomenon is likely to involve a much slower pick-up in consumption expenditure, by far the largest component of GDP in most economies, than in normal cycles.

There will be a major flight to safety, much lower consumption, more saving, and reduction of extremely high private non-financial sector debt loads. A mere message from the government that the lockdown is over won't get everyone to return to their former habits of spending (including with respect to travel, tourism, hospitality and entertainment).

Companies in particular will see the crisis as a once-in-a-generation opportunity to put through huge cost cuts deemed too draconian in more normal times. The move to remote working during this crisis has provided a great opportunity to see much of what people actually do and who is truly vital to the institution. There are very large numbers who will not be retained.

Implications of record levels of public debt

There is another concern that households and firms could have about debt other than that of their own sector—and that of course is the record levels of public debt being incurred—both by governments and central banks. The record levels of public debt could spook markets. This increase in sovereign borrowing costs, or simply the fear of it materialising, could prevent many countries from continuing the income support assumed in the IMF forecasts. Or have such countries turn to their central banks to directly finance government spending, thereby undermining—perhaps irretrievably—central bank independence from the government of the day.

Indeed, there is a not implausible case that in some countries that Rubicon has already been crossed (notably but not only in Japan). This has been generally a taboo in most advanced economies for many decades. The counterargument to this is that governments really have no option but to 'throw the house' at this crisis. For something of this speed and magnitude, the social contract in advanced economies requires government to step in and keep the connective tissue of firms alive. Perhaps so far so good.

This support can go on for one or two quarters, but if the downturn turns out to be deeper and longer, the sustainability of this strategy will surely be called into acute questioning. How will this public debt be paid down? The denominator effect (that is, GDP growth) will be super important.

There is also re-opening risk as regards the trajectory of the pandemic. (Indeed, the debate is shifting from the depth of the downturn to the speed and extent of re-opening). Re-opening will show the ongoing pressures of the virus. Next time around, we will have better tracing and social distancing. But over time, if there is no herd immunity and vaccine, a second wave is a very distinct possibility. A recent article by the economic historian, Niall Ferguson, documented how most past pandemics had at least a second wave.

Finally, there are political economy concerns. So far, the crisis in Italy, for example, seems to have brought people together. But if the effects of the virus do not diminish rapidly, we will be likely to face the 'make or break moment' for the Euro area. The EU (as distinct from the ECB) will need to step in, in a very major way. If they do fail to do so, the leader of Italy's hard-right League party Matteo Salvini and his populist anti-Euro supporters are likely to be back in charge. Obviously, there are also potential political economy concerns in the up to 40% of the world with weak governance and health systems.

Conclusion

Whether it is assumed there are one or two waves of the pandemic in the northern hemisphere, there is a lot of commonality between (a) the IMF's baseline scenario, albeit with a lot slower and weaker recovery as I forecast above; and (b) the IMF's scenario 2.

Both are consistent with a 2020 real output decline much worse than during the GFC, and a 2021 real output decline more or less on par with the GFC recession. Either way, the best part of two years of extremely deep recession the likes of which we have not seen since the Great Depression.

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Dr Morgan served as CEO of Westpac Banking Corporation from 1999 to 2008 and is a former Head of the Australian Bankers Association. During the 1980s, he worked for the Australian Federal Treasury, where he was appointed Senior Deputy Secretary. Dr. Morgan was Chair of the Future of the Australian Economy Stream of the Prime Minister's 2020 Summit. In 2009, he was made an Officer of the Order of Australia for service to the finance sector, corporate social responsibility and economic reform.

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Will our government embrace these three reforms?

Phil Ruthven AO

Keeping Australia competitive in the world today is a never-ending challenge of adjustments, reform and emulating world best practice.

The period from 1983-2000 saw well overdue reforms in the areas of labour market regulation and IR; trade and protectionism; sensible deregulation of the finance industry; superannuation; taxation and surplus budgets, and many more initiatives. Both the ALP and Coalition governments played parts in that era.

But nothing much has happened since.

The three areas of most interest to business are *parliamentary*, *taxation* and *labour market* reforms. We will touch on all three.

1. Parliamentary reform

The issue is simple: we need a democratic government, and we don't have one. We have an upper house (Senate) that is not democratically elected, given that 12 seats are given to each of the states and two to the territories, regardless of population. This enables smaller states, fringe parties and single-issue members to be elected who are not representative of the electorate. They have veto powers on any bill passed by the democratically elected governing chamber, being the House of Representatives.

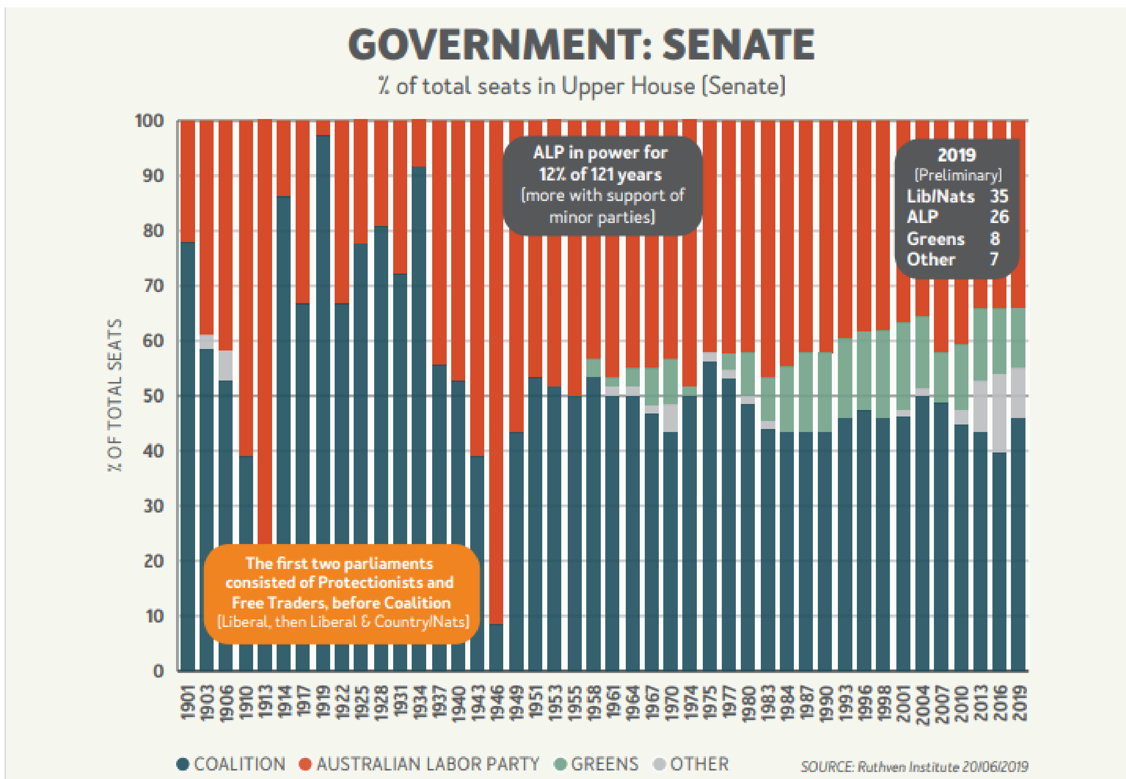
As a result, the lower house, democratically elected to govern the nation, is too often held hostage by minorities in the upper house. In short, we do not really have a British Westminster system at work. Their upper house cannot veto lower house bills, only delay them.

The chart below shows the undemocratically elected upper house, the 'unrepresentative swill' according to former Labor prime minister Paul Keating and the 'feral' chamber by another much-later PM. The Senate now controls Australia via its veto power.

As can be seen (next page), this was not a problem for the first six or seven decades after Federation in 1901. While the Senate never fulfilled the role of protecting state interests—being a political-party chamber from the outset—at least it was dominated by the major parties. Fragmentation began in the second half of the 20th century, and special-interest minorities now make it impossible for either Labor or the Coalition to ever get a majority to implement their policies. We are now, no longer, a democracy.

This makes it near impossible to do the major reforms we need without them being rejected or watered down to be token and useless. As said earlier, there have been no meaningful reforms in the 21st century as a result.

We need to remove the veto power of the Senate (upper house) as in the UK, where their upper house (unelected House of Lords) can no longer veto a bill, only slow it down for a short period.



It will be difficult to change the veto power of the Senate, but it needs doing. It would require a long campaign over a year or two, driven by a competition-winning advertising agency that make the issues simple, needing of change and doable. A touch of humour or the ridiculous in the process wouldn't go astray either; so Aussie.

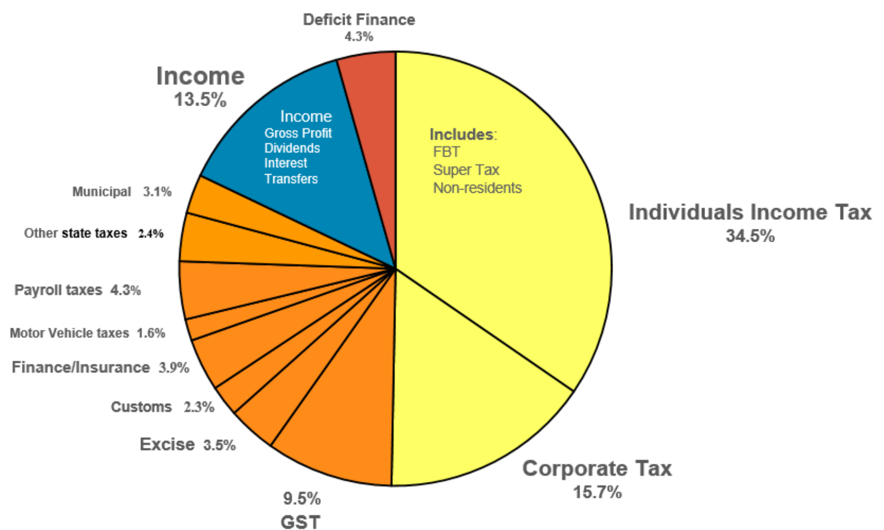
2. Taxation reform

Wider tax reform is needed to help business be more internationally competitive, and for workers to be able to keep more of their wealth generation (wages) but be taxed more on their spending. In short, change the overall mix of taxes in the community to world best practice (WBP).

Australia is already one of the lowest taxed developed nations in the world at 28% of GDP versus the 35% OECD average. How long that should or could continue after our current GFC Mark II crisis as a result of our management or mismanagement of the economics of the COVID-19 is a matter of political choice.

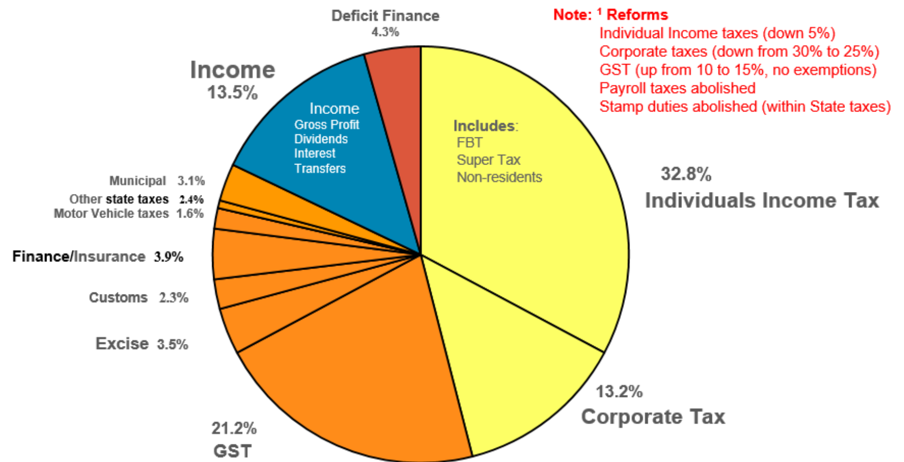
This analysis looks at our mix of taxes, not the total impost.

The chart (right) shows our current taxation mix plus other government revenue from Government Business Enterprises (GBES) and other investments, followed by a reformed mix of taxes to WBP standards of the components.



The next exhibit reflects the following changes (reforms):

- Individual taxes are reduced by 5%
- Corporate tax rate lowered from 30% to 25%
- GST has exemptions removed and the rate lifted from 10% to 15% (a la NZ)
- Payroll taxes abolished
- Stamp Duties abolished



The above mix becomes more in line with other advanced economies that have chosen to favour increasing expenditure taxes and decreasing income (wealth creation) taxes.

This is an area few governments have had the will to tackle, and simply don't know how to sell it to the electorate. Reforms to our Senate are perhaps a precursor. If tax was tackled, perhaps again a competition-winning advertising agency could take on the logic, fairness and benefits of a new mix of taxes.

3. Labour market reform

Workers are on a new journey in the current Infotronics Age of services and Information and Communications Technology that displaced the Industrial Age of manufacturing and electricity in the mid-1960s, over half a century ago.

The characteristics of this journey as it involves employment are summarised to the right.

WORKER FREEDOM IN THE 21ST CENTURY

- **No "bondage" by businesses, government, bosses or unions**
- **The gradual demise of the concept of an "employee"**
- **Rise of contractual relationships**
- **Payment for outputs, not inputs** (hours of work)
- **Emergence of advisers and mentors for worker contracts**
- **More part-time and casual work** (including gig economy)
- **Rise of business ownership** (> 300,000 enterprises per annum)
- **No discrimination on any basis** (gender, race, age etc)
- **Partial or total working from home, where practicable**
- **More working seasons in a life**
- **New industries & occupations**
- **Working in a borderless world**
- **Knowledge worker concept**
- **Lifetime education, re-skilling and training**
- **Steady and continual rises in wages & salaries**

In essence, our new age is on a path to reduce subservience or 'bondage' of workers. This path is being resisted by unions and older generations, for control, habit or fear reasons. Less so with younger generations, especially the Millennials (under 38 years-of-age) and Generation Z (under 18 years-of-age).

Many factors are contributing to this preference for freedom:

- Casualisation, where part time and casual work provides more choices
- Average working hours shrinking from a 65-hour week (1800) to a 30-hour week (2020), allowing for two months' leave each year, and increasing leisure
- The move to being rewarded for output rather than the rigidity of input (hours) regimes
- Lower cost of starting one's own business (predominantly service businesses)

The fact that over 330,000 new business start-ups occurred in 2019 is a pointer to the pattern of taking charge of one's own destiny when it comes to livelihood. This rate, representing 3% of households for many years, points to a preference for a B2B relationship by more and more workers over the industrial age B2E (business to employee) relationships.

Also, the churn rate of employees in corporations, around 8% a year, while not necessarily an indication of instability or dissatisfaction in each case, does point to the mobility of employment. More so in some industries than others.

It is just as hard for current governments to handle labour market reform, as other reforms, so productivity growth will be impeded for some years yet. And it is in poor shape currently.

So what?

There are encouraging promises made by Scott Morrison with regard to reforms on the Anzac weekend in April. He indicated all the reform studies and recommendations going back for many years will be taken off the shelves and out of the archives, dusted down, and used to establish a genuine reform programme.

This would be helped enormously if all parties to reform cooperated, including the federal government and the opposition, the states and the unions. One would think a post-pandemic environment should provide enough goodwill to see a large measure of this co-operation occur. But whether ideologies will give way to fundamental, rational and commonsense approaches to allow this to happen remains to be seen.

The near certainty is that without parliamentary reform to alter the veto power of the Senate, we could expect only watered down sub-optimal reforms.

We can but hope.

Phil Ruthven AO is Founder of the Ruthven Institute, Founder of IBISWorld and widely recognised as Australia's leading futurist.

8 reasons business has little to learn from 'The Last Dance'

Jonathan Hoyle

On Monday, one of the most compelling sports documentaries ever broadcast came to a thrilling end. I'm talking, of course, about *The Last Dance*, the story of Michael Jordan and the Chicago Bulls. In case you don't know anything about it, see this two-minute video.

View this two-minute excerpt from The Last Dance

It has sparked endless fascinating debates (if you like sport) such as which other athletes have similarly dominated their sports. We came up with this short list— Mike Tyson, Tiger Woods, Serena Williams, Michael Schumacher, Don Bradman, Wayne Gretzky and Messi/Ronaldo. But I'm sure you'll have your own.

Why was *The Last Dance* so fascinating? In part, it was an insight into the pursuit of excellence in its purest form. Jordan's ambition, drive and tenacity were at times both beautiful and inspiring, but also brutal and intimidating. Or maybe it was the shock of hearing a sports star talk in such honest terms. How we all dread the post-match 'interviews' with today's players. Whatever the question, you know you'll get the trifecta: *it's not about me, it's about the team; credit to the oppo' – they ran us hard; and, we're just taking one game at a time.*

For those in the business world, earnest debates have ensued on what we can learn from Michael and the Bulls. The answer, I'm afraid, is very little. Sport is a terrible metaphor for business. Here are eight reasons why.

1. Chicago simply got lucky

One of the greatest athletes of all time landed on their doorstep and they promptly won six titles. They won nothing before Jordan and have won nothing since (in fact, the post-Jordan Bulls have never made the Finals and missed the Playoffs 10/21 times).

Yes, they had a great coach in Phil Jackson (he won a further five titles with The Lakers) but he couldn't win without Michael. With just five players in a team, basketball is unique amongst team sports in that one great player can have such a huge impact. Even Jordan's soccer equivalent, Lionel Messi, couldn't lead an ordinary Argentinian team to World Cup glory. This isn't the story of a great team—it's the story of a uniquely gifted individual.

In case there is any doubt as to Jordan's worth, here's the Chicago Bulls 1997-98 season roster. Jordan was paid more than the rest of the team combined.

PLAYER	POSITION	SALARY
Michael Jordan	SG	$33,140,000
Dennis Rodman	PF	4,600,000
Ron Harper	PG	4,560,000
Toni Kukoč	PF	4,560,000
Luc Longley	C	3,184,900
Scottie Pippen	SF	2,775,000
Bill Wennington	C	1,800,000
Scott Burrell	SF	1,430,000
Randy Brown	PG	1,260,000
Steve Kerr	PG	750,000
Keith Booth	SF	597,600
Jud Buechler	SF	500,000
Joe Kleine	C	272,250
Rusty LaRue	PG	220,772
Dickey Simpkins	C	78,013

SOURCES: BASKETBALL-REFERENCE.COM, SPOTRAC

2. Winning is different from succeeding

Sports teams exist to beat the competition. Businesses, on the other hand, succeed by delighting their customers. It helps if they are better than their competition but being different and standing for something is equally important. Apple devotees love the beauty and creativity of their product suite, those who wear Nike's Air Jordans identify with the street appeal of both brands, but sports fans just want their team to win.

And they don't care how ugly this is. Jose Mourinho came in for much criticism when managing Chelsea for his tedious style of play (go 1-0 up and then 'park the bus') but the criticism only came from non-Chelsea fans. Oh, what The Kop wouldn't have given at the time for a turgid 1-0 Liverpool win!

3. There's no 'I' in Team but there is in Win

The employees of a sports team are a world apart from those of a business. Firstly, they have an exceptionally short playing life. According to the *Wall Street Journal*, the average football career in the NFL (Not For Long) is just 2.66 years. This means players are singularly focused on maximising their personal earnings in the shortest period possible. Second, they need to build their personal brands to complement their playing incomes. The result is a bunch of narcissistic mercenaries. Third, most sports operate a salary cap, meaning the best players have their earnings limited by law (Johnathan Thurston and Cameron Smith would have earned far more if the NRL operated a free market). The most pernicious effect of a salary cap is that it reduces the incentive to find and train young talent.

Business employees, on the other hand, can look forward to careers measured in decades, with performance peaking well into their 50s. Companies, free to pay their staff whatever they consider them to be worth, are incentivised to recruit and train young talent. Culture really matters in business. It's not just the fancy buzzword of the day—culture promotes loyalty, growth and stability.

4. Coaches are not CEOs

Because staff and players have such different motivations, the mentality of business managers and sports coaches are poles apart. The best business managers are great listeners, who nurture their talent with patient, supportive guidance. In contrast, the most effective sports coaches are tyrants. The only comparison to the business world are turnaround situations, where decisive, ruthless and often unpopular leadership is required. Sports teams are essentially narcissistic mercenaries run by tyrants.

5. Mavericks don't work in business

It was fascinating to watch how Jackson and Jordan gave special treatment to the talented but idiosyncratic Dennis Rodman. They needed him and were prepared to make allowances. It's challenging for a business to do this as it tears at the fabric of their culture.

6. Ownership matters

Businesses are run to maximise the capital of the owners. Period. The owners of sports teams (often individuals) do so for a variety of reasons. These include avoiding execution (Russian oligarchs buying English Premiership teams), conferring legitimacy (Middle Eastern regimes with dubious human rights records) and vanity projects (the ultimate toy for every self-respecting billionaire). The profit motive rarely figures. This means that the key metrics for success of sports teams and businesses are so different. One has to feel sympathy for the long-suffering fans of Sunderland F.C. (the subject of an equally compelling sports documentary *Sunderland Til I Die*). Their club is owned by a cash-strapped cowboy fan, whereas their bitter rivals Newcastle are on the verge of seeing their beloved club transferred to Saudi Arabia's Public Investment Fund. Such is the lottery of sport.

7. The separation of revenues from profit

Businesses are often owned by thousands of small shareholders, whose rights are protected by a board, which appoints a CEO to make the decisions. The key appointment for owners of sports teams, on the other hand, is the coach. Most teams don't have a Jerry Krause-like figure who wielded real power (mainly, it would appear, by keeping his stars at each other's throats). Business leaders are incentivised to grow revenues whilst keeping a very keen eye on costs, whilst coaches care solely about revenues (winning)—profit growth is Someone Else's Problem. This separation of ownership of revenues from costs is unique to sport.

8. Legacy matters in business

Both Manchester United and the Chicago Bulls were great teams for a period, but when their stars left, they headed straight into the wilderness where they remain today. A successful business CEO, on the other hand, is defined as much by her legacy as her results while in power. Succession planning is at the forefront of the mind of every decent business leader.

So enjoy *The Last Dance* for what it is - a fascinating sports documentary, expertly directed by Jason Hehir, on the pursuit of excellence and of one of the greatest athletes of all time.

And for those business leaders who crave leadership lessons from the sporting world, read *Legacy* instead, James Kerr's brilliant book of the greatest team of all time - The All Blacks.

Jonathan Hoyle is CEO of boutique private wealth firm, Stanford Brown, and a sports fan (especially Manchester United and the Manly Sea Eagles). He can be found on a Saturday afternoon playing soccer for Manly Allambie O-35s Div 4. Every game feels like the World Cup Final.

Do long-term investors need to care about the 'next big thing'?

Charles Dalziell

After going eight years without a 5% down day, global stockmarkets experienced four in March. It was testament to the extreme fear and uncertainty gripping markets in the face of a truly global health crisis.

In the weeks that have passed since then, the world has remained on edge as countries have extended then relaxed their lockdowns, growth rates have fallen, and unemployment has shot up. Despite this, markets rebounded in April and into May. US stocks experienced their biggest monthly rally since 1987.

We cannot know how this particular crisis will end, or whether the April and May rally will continue or sputter out. What we do know is that at times like this, it is easy to let one's time horizon shrink. To focus on the immediate priorities. And, while that is undoubtedly important, both from a personal and a financial perspective, it is also at such times that long-term thinking can be greatly rewarded.

The rhyme of history

While there is no denying that the COVID-19 pandemic is unprecedented in almost every aspect versus global crises that came before it, the same can be said for each of those crises too. Each one is unique, but there are some lessons that can be learned from them that are helpful to think about now.

The first is that this crisis, like all others, will end. When that will happen and what the world will look like when it does are questions we think through closely, but those questions are hard to answer with any confidence. To us, the first and most relevant question for investors is: Will this company survive the current crisis?

After all, a company's long-term fundamentals are only meaningful if the company in question is going to be around for the long term. Hoping for a government bailout will most likely be disappointing as a shareholder.

So in a crisis, it is vital to think like a lender and it is why we are far more interested in companies with strong balance sheets and net cash than those with high degrees of leverage.

The second lesson from the past is that crashing markets tend to move in unison, driven on the downside by panic and forced selling, and on the upside by shreds of hope. But, while share prices often move in lockstep, companies' prospects do not.

No regrets, where is the value now?

In order to work out the difference between those shares that have good reasons to have fallen dramatically and those that are suddenly on sale, we ask ourselves another question:

What will the business be worth over the long term and how does that compare to the current price?

Or said differently, *when we look back five years from now, which companies will we regret not having bought at today's prices?*

In some cases, the answer seems clear cut. To us companies like Netease and Tencent should be clear beneficiaries. Both operate online computer games in China and have already seen an uptick in users as people are stuck at home. Looking further ahead, there are other broader considerations. Netease also offers online education services, which could benefit significantly in the long term if the pandemic and the resultant social distancing fundamentally alters education systems. Likewise, Tencent's remote working business also stands to benefit if the lockdown changes how we learn and work.

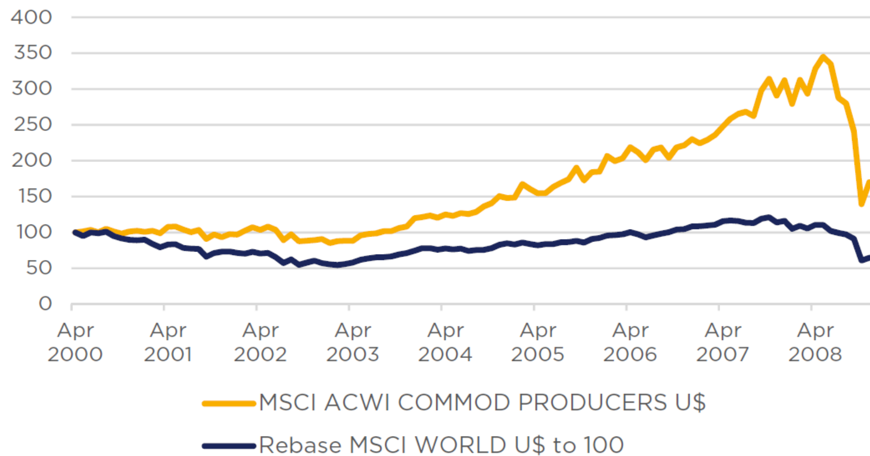
Other companies we own are less clear cut. XPO Logistics is, on the face of it, a cyclical trucking and logistics business operating in Europe and America that is feeling the full force of the COVID-19 shutdowns and subsequent economic fallout. The reality is that while some parts of XPO's business are down significantly, other parts are currently booming. The crisis has laid bare how critical logistics assets are and over time those services will be valued higher by investors and customers. The increase in e-commerce through the crisis is likely to be sticky and this volatility gives a chance for XPO to form closer customer relationships. A crisis like this reveals great management teams and businesses and we believe that XPO has a great management team and is a great business.

Don't waste a crisis

These longer-term considerations relate to the third similarity that has historically run through investment markets at times of major upheaval—big global events can often accelerate societal change.

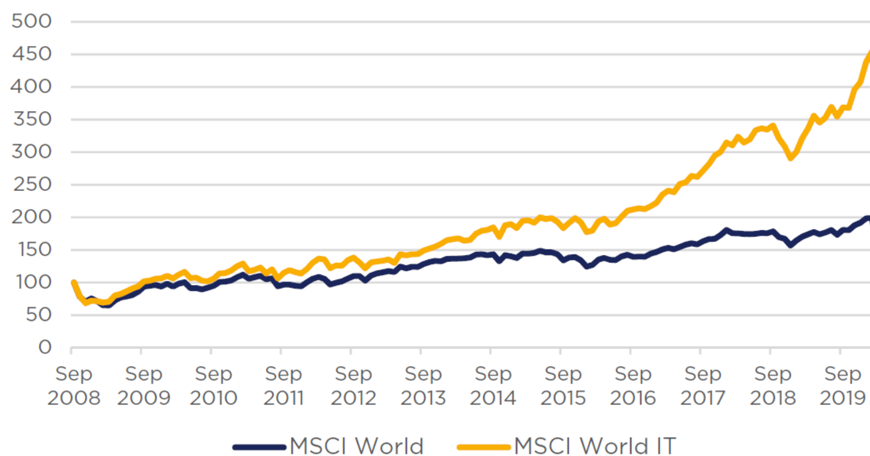
'Never let a crisis go to waste' is the mantra of many an astute politician. Caught in the here-and-now of the immediate crisis, big structural changes can sneak by unnoticed. In the wake of the dotcom bust of 2000-01, for example, most people were figuring out which parts of the 'new' economy would survive the bust and which elements of the old economy that so many had previously shunned were still relevant. And, as a result, many missed the full import of China's entry into the World Trade Organisation and the impact it would have on the global economy. Specifically, the natural resources bonanza that was driven by the sharp increase in demand created by its rapidly growing middle class.

For those that were paying attention, however, there were significant gains to be made in the decade. The graph below shows the performance of a global basket of commodity-producing companies versus the global stock market. Had you invested in just the commodity producers, your investment would have grown more than threefold in the eight years before the GFC, compared to the global market which remained basically flat. Happily, you did not need a crystal ball to profit from the commodities boom in 2000, you simply needed to recognise resource companies were incredibly cheap at the time.



Source: Datastream

Similarly, in the aftermath of the GFC, instead of debating whether or not to wade back into banks or to stick with something more defensive, the insightful play, as is evident below, would have been to follow the advent of the smartphone, which enabled entirely new business models to emerge and dominate in the 2010s. The next graph, which compares the performance of a basket of global technology shares and the broad market, demonstrates that in the decade that followed the GFC, while the overall market roughly doubled, technology shares increased more than 4½ times.



Source: Datastream

As bottom-up stockpickers, we are not in the business of trying to predict what the next big thing will be. However, the last decade has been incredible for the US stock market and US growth stocks in particular. The next decade could well be about something else altogether.

If there is a clear lesson from previous crises it is that no matter how bad things may be right now, forcing yourself to keep a cool head and focusing on the long term can be enormously valuable.

Charles Dalziell is Investment Director at Orbis Investments, a sponsor of Firstlinks. This report constitutes general information only and not personal financial or investment advice. It does not take into account the specific investment objectives, financial situation or individual needs of any particular person.

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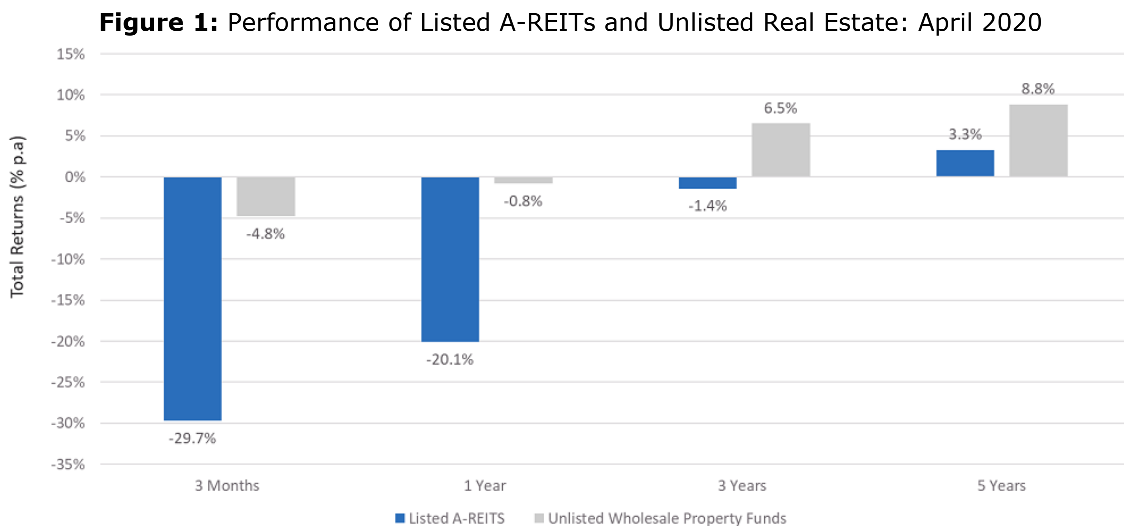
Not all non-residential real estate performs the same

Adrian Harrington

COVID-19 has had a major impact on all segments of real estate although performance to date has varied by type and sector. We expect this pattern to continue as we move through the recovery phase.

The latest MSCI Mercer Core Wholesale Property Fund Index shows that the 17 unlisted wholesale property funds in Australia worth a collective $101 billion generated a total return of -4.8% in the three months to 30 April 2020 and -0.8% over the year. Yet the 29 listed real estate securities (A-REITs) with a market capitalisation of $95 billion in the S&P/ASX300 A-REIT Index generated a total return of negative -29.7% in the three months to April, and negative -20.1% over the year (Figure 1).

Figure 1: Performance of Listed A-REITs and Unlisted Real Estate: April 2020



Source: UBS and MSCI

The velocity at which the listed A-REIT sector sold off in March and then rebounded in April was quite staggering. The S&P/ASX300 A-REIT Index generated a total return of -35.2% in March, the worst month on record for the A-REIT index, eclipsing October 2008 (-25%).

In April, the A-REITs retraced some of their losses following the unprecedented response from authorities to provide liquidity to credit markets and financial support to households and businesses. A-REITs generated a total return of 13.7% for the month, one of the best monthly performances on record.

Unlike in the GFC, A-REITs were in good shape coming into the COVID-19 pandemic, with significantly stronger balance sheets (lower gearing levels, diversified sources of, and longer duration, debt) and arguably better assets with minimal offshore exposure. Yet that wasn't enough to offset the rapid sell-off in A-REITs.

Historically, listed real estate securities have tended to quickly overreact to unexpected macro events and overshoot to the downside relative to changes in the values of their real estate assets. The daily pricing of listed A-REITs exacerbates the sell-off.

In addition, a large proportion of the A-REIT investor base now comprises ETFs, index funds and equity funds which will buy or sell based on broader market conditions rather than implied cap rates (yields) or the earnings of the underlying real estate. So, while it was not unexpected that they would follow the sell-off in broader equities market, the magnitude of the sell-off and bounce back did surprise.

In response to dislocation in markets and economy, the managers of the 17 major unlisted wholesale property funds—AMP, Charter Hall, ISPT, Investa, GPT, Lend Lease and QIC—either revalued their assets at the end of March or April, or in the case of some funds, revalued at the end of both months. Figure 1 shows the returns versus the listed market were still markedly different.

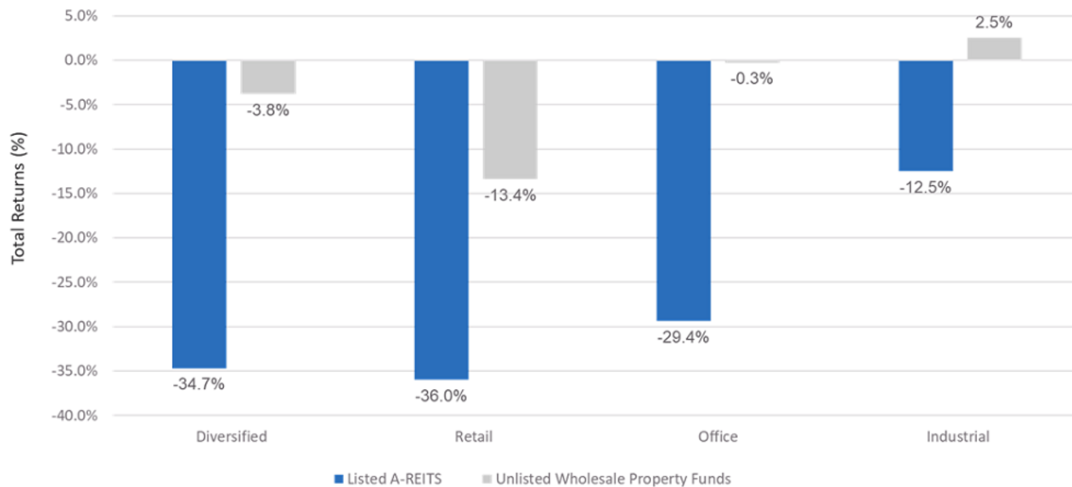
Sector performance varies

Drilling down, the relative performance rankings of the sectors—diversified, retail, office and industrial real estate—are similar across the listed and unlisted real estate markets although the dispersion of performance

between the two markets is wide. In other words, both markets have similar views on the sectors, it's just the magnitude in pricing that differs.

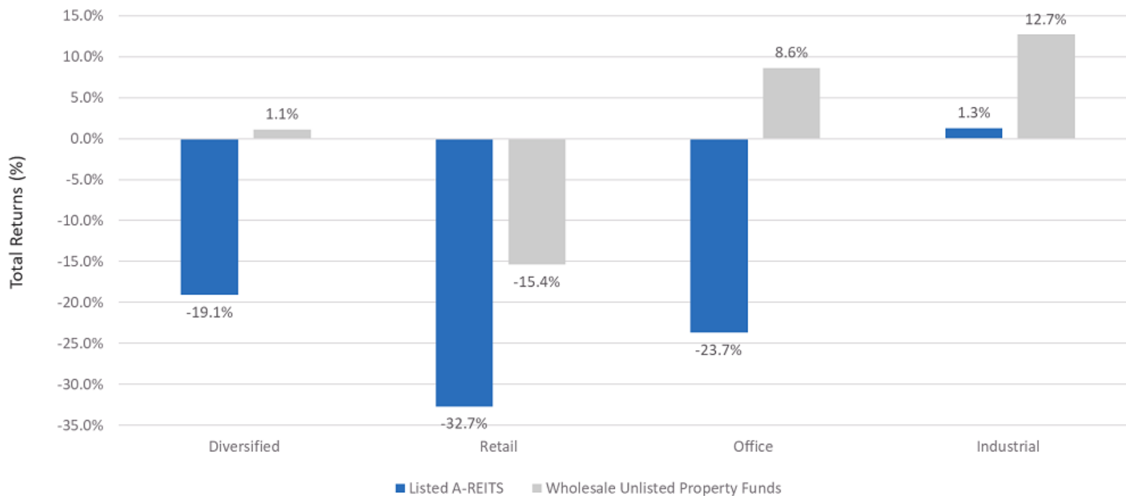
Across both the listed and unlisted markets, retail was the worst performer and industrial the best performer over both the three months (Figure 2) and year to April 2020 (Figure 3). Yet in the three months to April 2020, the dispersion in performance between the listed retail A-REITs and unlisted retail funds was 22.6% and between industrial A-REITs and unlisted industrial funds it was 15.0%. Over the year, the dispersion was 17.3% and 11.4% respectively.

Figure 2: Performance of Listed A-REITs and Unlisted Real Estate: Three Months to April 2020



Source: UBS and MSCI

Figure 3: Performance of Listed A-REITs and Unlisted Real Estate: 12 Months to April 2020



Source: UBS and MSCI

Retail faces structural headwinds

Retail, especially discretionary retail, was already facing strong headwinds. COVID-19 is expected to accelerate a cultural and structural shift in the way consumers purchase their goods, many of which had not shopped online before the pandemic. The ongoing challenge to bricks-and-mortar retail formats to remain relevant in a highly competitive marketplace will put further pressure on retailers and their landlords to adapt their offering. Large retail malls, once the staple of a core real estate portfolio, will struggle to outperform.

On the other hand, industrial and logistics real estate continues to benefit from low levels of vacancy and structural tailwinds. Recent events will super charge the growth in ecommerce. Also, the amount of inventory held in reserve 'so called safety stock' will increase to avoid companies becoming caught by future disruptions in their supply chains. Retailers, cold storage occupiers and transport and logistics providers will accelerate the optimisation of their supply chains and occupy purpose-built, high-quality technology filled facilities.

Coles' recent pre-commit on long-term leases to two Charter Hall owned high-tech customer fulfilment centres (CFCs) in Sydney and Melbourne is testament to the changes under way in the industrial and logistics sector. Coles plans to use the UK-based Ocado's leading edge automated single-pick fulfilment technology and home delivery solution in their CFCs. Commenting on the deal, Coles Group CEO Steven Cain said:

"Ocado's online fulfilment solution, which also includes new website technology for Coles Online and Ocado's delivery management technology to maximise transport efficiency, will transform the Coles Online experience for customers."

Industrial and logistics to lead transaction activity

Real estate transaction activity is likely to be lower for the foreseeable future as investors and financiers take a wait-and-see approach to how the economy recovers. Yet the industrial and logistics sector is set to buck the trend. High quality industrial and logistics real estate is expected to show the greatest volume of transaction activity in the coming year.

At an institutional level, both domestic superannuation funds and global pension funds are underweight industrial and logistics assets. Given the thematic tailwinds driving the sector as noted above, capital will chase these assets. The sheer weight of capital could in turn push prime industrial cap rates (yields) below those of prime office for the first time.

Pricing in the listed and unlisted real estate markets will often diverge in the short-term, creating arbitrage opportunities. What has happened in recent months is not new although as noted earlier, the magnitude of the sell-off in A-REITs was unprecedented.

But looking through the lens of both the listed and unlisted real estate markets, it is clear that retail assets, particularly those focused on discretionary shopping, will continue to underperform and industrial and logistics assets will be the winners for the foreseeable future.

Adrian Harrington is Head of Capital and Product Development at Charter Hall, a sponsor of Firstlinks. This article is for general information and does not consider the circumstances of any investor.

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The uncertainties of using debt in a time of crisis

Miles Staude

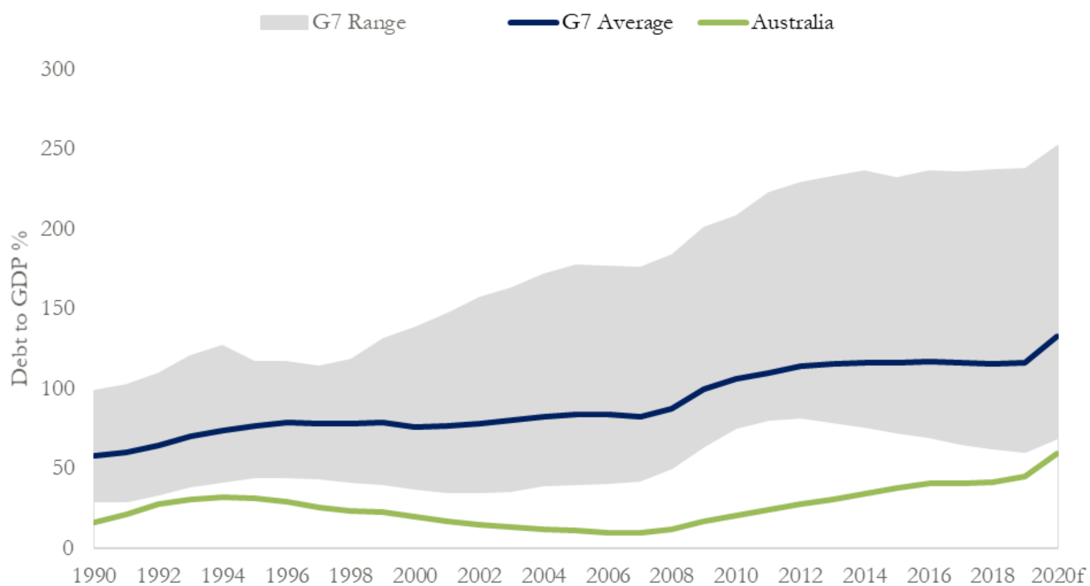
Even before COVID-19, there were few topics as polarising in politics and economics as the size and rectitude of government debt levels around the world. Fighting to avert economic depression and keep the financial system operating in the face of a 'once in a lifetime' global financial crisis (GFC), governments ran up towering fiscal deficits that, in most cases, are still with us today. Now, little more than a decade on, instead of being the once-in-a-lifetime event it was touted as, the GFC is looking like a mere entrée to the main Covid-19 borrowing event.

Cheque, please?

According to the IMF, gross government debt will rise by a staggering US$6 trillion in 2020, a greater increase than was seen in any of the years of the GFC. Moreover, it is a rare optimist that thinks 2020 will see the end of this pandemic, or its economic damage.

The post-GFC debt burdens were highly divisive. In academia, a significant split emerged: Are higher levels of national debt dangerous, or do they represent prudent policy at a time of low interest rates? In 2010, two Harvard economists, Carmen Reinhard and Kenneth Rogoff, published a paper which argued that increased levels of government debt lowered a country's rate of economic growth. Importantly, their work identified a number of key tipping points, the most alarming being when a country's public debt to GDP ratio exceeded 90%, its economic growth should be expected to halve. With many countries' debt levels then precariously close to this level, their analysis became a rallying cry for those that believed in fiscal prudence and austerity.

Figure 1: General gross government debt to GDP – G7 countries and Australia



Source: IMF, Fiscal Monitor – April 2020

Embarrassingly, critics later uncovered a series of errors within Reinhard and Rogoff's analysis. And while subsequent papers by the authors, and independent work by the IMF, also found that rising levels of debt do reduce economic growth rates, the relationship was weaker than previously thought, and there was little evidence to support the 90% debt-to-GDP tipping point. However, by then, the schism within the field of economics was already entrenched.

The most favoured and least painful solution to all debt problems is to grow your way out of them. When viewed in this way, increasing levels of government debt can be thought of like a factory that takes out a loan to expand. So long as the investment increases earnings by more than the interest on the loan, over time, the higher earnings pay back the debt.

What matters less than the size of debt, then, is its cost and whether it will be put to productive use. Across the rich world, government borrowing costs have fallen to almost zero, in some countries they are even negative. Faced with the prospect of 'free' money, who wouldn't want to invest to expand the factory? When considering genuine long-term investment into an economy's future capacity, this logic is hard to fault. When the Australian government can lock in ten-year debt today at less than 1% per annum, how could there not be a better time to be building the hospitals, airports and roads of the future.

Have cheque book, will spend

Taken to its furthest, the debt is 'costless' argument forms the foundation of some of the more extreme economic ideas that have arisen since the GFC, such as Modern Monetary Theory (MMT). In essence, the key insight of MMT is that government borrowing is manifestly different from the borrowings of households or businesses. Why? Because if governments can issue their own money, their supply of currency is endless.

If you need to stimulate the economy, or want to embark on some Gosplan-like spending initiative (in the US, some proponents of MMT see it as a way to pay for things like a 'Green New Deal'), all you need to do is increase the deficit. If interest rates go up in the future, and debt is no longer so cheap, you just borrow to meet those costs too.

In their defence, the more reasoned MMT campaigners do not claim that large government deficits have no consequences at all. Rather, they claim there is significantly more capacity to use government debt than we have historically believed. Japan is typically held up as an example, having successfully managed debt to GDP ratios of >200% for many years. Perhaps undermining this, however, Japanese growth rates have collapsed in tandem with the country's ever-increasing debt load.

Ideology is like your breath: you never smell your own

The truth is, we still have an incomplete understanding of the long-term consequences of large national debts, and there exists enough intellectual cover for those on both the left and the right to advocate their existing

ideological positions. In politics, the media and around the dinner-party table, most people's views on the virtues of government debt were firmly established before the pandemic struck. What is unfortunate about this is that it is going to make a reasoned debate about the challenges to come almost impossible.

Given all of this, perhaps it is best to acknowledge that, regardless of its impact on growth, increasing levels of debt indisputably escalate overall risk, and tie our hands in the future.

Today, countries that have treated national indebtedness as a scarce resource outside of times of crisis are the ones that find themselves with the greatest capacity to protect their economies. For years, Germany was criticised for pursuing its *schwarze Null* (black zero) policy—a commitment to run government surpluses. Vindicated today, and uniquely in Europe, Germany has had the ammunition to launch a substantial stimulus plan. Luckily, Australia also finds itself in this camp and has launched the second largest economic stimulus package in the world. Like Germany, it retains plenty of scope to add to this if needed.

We all hope that the 'second wave' proves to be manageable and that ultimately a COVID-19 vaccine is found. Hope, however, won't keep the lights on if this doesn't prove to be the case.

Miles Staude of Staude Capital Limited in London is the Portfolio Manager at the Global Value Fund (ASX:GVF). This article is the opinion of the writer and does not consider the circumstances of any individual.

Do you qualify for this help in the crisis?

Brendan Ryan

Among the many stimulus measures introduced by the federal government, deeming rates have been cut. This means a couple with up to $4 million in superannuation could be eligible for the Commonwealth Seniors Health Card (CSHC) and all the associated benefits. It also means that some age pension recipients will get a boost.

Many more qualify for this benefit

Consider this scenario:

1. A couple have the bulk of their savings held equally in super, and they are drawing a pension. The money they draw out of super is not taxable so it does not appear on their tax statement (this confuses a lot of people, as only account-based pensions are assessable for the income test).

2. This couple also has a smaller amount of savings in their joint bank account earning negligible interest. So although interest received is taxable, in reality, tax is close to zip.

3. For the CSHC eligibility test, the couple can receive a total combined income of $89,290.

As they receive zero income from their bank account, we then look at how big their super can be, before their deemed income is more than the threshold of $89,290.

The maths works like this:

- The first $86,200 is deemed to earn 0.25% under the new deeming rates, so the first $86,200 of super savings contributes only $215.50 to the threshold of $89,290.
- The balance is deemed to earn 2.25%. Working backwards from the capacity still left in the test, $89,290-$215.50=$89,074.50.
- So at 2.25%, $89,074.50 is the interest on a sum of $3,958,866.66. Put these super balance amounts together, then the upper limit is $4.045 million.

Note, that the Transfer Balance Cap (TBC) on account-based pensions is $1.6 million (soon to be indexed to $1.7 million), so a couple is only likely to hold a combined account-based pension balance of more than $4 million if their investment performance has delivered a solid increase in the value of the account-based pension after starting at the TBC of $1.6 million each.

How many people realise they can have over $4 million in assets (other than their family home) and be eligible for a CSHC?

Additional context

Here is some extra perspective:

1. Prior to deeming rate changes in 2019, the upper limit for a couple's super savings (assuming no other taxable income) was about $2.8 million, then with the July 2019 changes it went to $3.03 million, and now $4.045 million (and $2.526 million for a single person)
2. Meanwhile, the stimulus payment of two lots of $750 is available to holders of the CSHC. New applicants will miss the first payment, however they will be eligible for the second payment if they hold the card as at 10 July.
3. Application is via myGov or using a downloadable form.
4. Note that new applicants will have to go through a process to establish identity, but this can be done by phone, which makes things a bit easier.

Essentially, a couple with no other assessable income can have very high account-based pension balances (after May 1) and still be eligible for the CSHC and they may be able to receive the card before 10 July and collect the $750 stimulus payment.

Also, by my calculation, a CSHC offers savings of up to $1,180 a year due to a lower Medicare safety net, potentially more than $1,300 in support via the Pharmaceutical Benefits Scheme, and more savings based on the likelihood of bulk billing via medical practitioners who receive a higher payment if they bulk bill concession card holders (like CSHC).

Other benefits add up

From state to state there are other benefits such as the $250 Regional Seniors Travel Card and a $200 energy rebate in NSW, both of which have to be applied for).

Combined with the stimulus payment, a NSW couple in a regional area could receive more than $2,500 each in medical cost support, $250 each in Regional Seniors Travel Card, stimulus payments of $1,500 (each), and a $200 rebate on energy costs.

That could add up to more than $8,700 worth of support this calendar year, even with a superannuation balance of more than $4 million.

Consider also that if a couple has cash at the bank earning 2% (which is ambitious), they need to have about $4.5 million to get an income to the threshold amount to exclude them from eligibility for the card.

Throw in reduced dividends this year, reduced rental income from rental properties, reduced part-time work opportunities etc—and a lot of retiree couples who do not receive the age pension could easily be eligible for the Commonwealth Seniors Health Card.

Brendan Ryan is a financial adviser and Founder of Later Life Advice. This article is for general information purposes only and does not consider the circumstances of any person. People should make their own enquiries to confirm eligibility for anything described in this article.

What SMSF trustees need to know about benefit payments now

Anthony Cullen

To help manage the economic impact of COVID-19, the federal government has announced a series of initiatives to help cushion the blow of these extraordinary times. On 24 March 2020 the government's *Coronavirus Economic Response Package Omnibus Act 2020* received Royal Assent.

As it did in the wake of the GFC, the government has reduced the minimum drawdown requirements on some pensions.

Minimum pension drawdowns

In relation to Account Based Pensions (ABP), minimum income stream benefits are determined by multiplying the balance of your ABP by the relevant pension factor, per the below table.

These halving of minimum requirement measures also apply to the following pensions:

- Market Linked Income Streams (MLIS)
- Transition to Retirement Income Streams (TRIS)
- Allocated Pensions (AP)

Item	Age of beneficiary (as at 1/7 or date of commencement for new pensions)	Usual Percentage factor	Percentage factor for 2019/20 & 2020/21 FY
1	Under 65	4	2
2	65 - 74	5	2.5
3	75 - 79	6	3
4	80 - 84	7	3.5
5	85 - 89	9	4.5
6	90 - 94	11	5.5
7	95 or older	14	7

Where these pensions have a maximum withdrawal limit, there is no change to calculating the maximum.

Withdrawals from complying pensions that are determined by an actuary cannot be halved under these temporary provisions. Pension payment requirements will continue to be in accordance with the original expectations.

Adjusting prior payments

Where you have been receiving regular pension payments during this income year, it's possible you have already received more than the required minimum pension payment amount for this income year. We have received questions about whether it's possible to re-classify pension payment amounts that have already been paid as lump sum withdrawals rather than pension payments. This is due to the fact there may be benefits from having withdrawals treated as lump sums.

Having payments treated as lumps sums will impact your Transfer Balance Account (TBA) and may free up space within your Transfer Balance Cap (TBC), potentially allowing for further strategies in the future. Further to this, if you are under the age of 60, accessing the lump sum low rate cap may provide greater tax benefits at an individual level than receiving pension payments.

As regulator of SMSFs, the ATO's view on changing the treatment of payments is an important starting point. The below Q&A has been taken directly from the ATO's FAQ page dealing with COVID-19 and superannuation:

Question: *I am retired and receive an account-based pension from my SMSF. My account-based pension has already paid me more than the reduced minimum annual payment required for the 2019–20 financial year. Is the amount over the minimum considered superannuation lump sum amounts?*

Answer: *Pension payments that you have already received cannot be re-categorised. Accordingly, payments made from your account-based pension in excess of the new reduced minimum annual payment required for the 2019–20 financial year are pension payments (that is, superannuation income stream benefits) for the year and not superannuation lump sums.*

Further to this, the following must be considered before attempting to make any adjustments to prior payments:

- Treatment of benefit payments: For a withdrawal to be treated as a lump sum benefit you must request such a treatment prior to the payment being made. Trustees should have on file the appropriate paperwork to support such a payment.

- Timing of the law versus application of the law: Although the reductions in the drawdowns will apply for the entire 2019-20 and 2020-21 financial years, the legislation to support the changes only received Royal Assent on 24 March 2020 and commenced from 25 March 2020.

Any benefit payments that were previously classified as pension payments prior to 25 March 2020 were made based on the law at that point in time. In the event of an audit, it may be difficult to justify a claim of meeting the reduced minimum requirements before the law had been changed.

Let's consider George whose original minimum required pension drawdown was $35,110. George was receiving a monthly drawdown of $2,926 on the first day of each month. From 1 July 2019, to the date of Royal Assent (24 March 2020), George has received payments totaling $26,334. As this amount exceeds George's reduced minimum drawdown amount of $17,560, he is not required to withdraw any further amounts for the remainder of 2019/20.

Assuming George continues to receive the monthly payments, he may look at the potential benefits of treating the remaining payments for the year as lump sum benefits. What George is unable to do is have any of the previous monthly pension payments re-classified. They must remain as pension payments.

Pensions must be paid in cash

Where you also have an accumulation account in the fund, and you have unrestricted access to that account, it will be tempting to reclassify pension payments in excess of the new reduced drawdown amount as lump sum withdrawals from the accumulation account. This will have the effect of increasing the fund's exempt current pension income (ECPI) deduction. Once again, this reclassification cannot occur if the documentation on file supports the fact that the payment was a pension payment.

One final point on pension payments. They must be paid in cash. As of 1 July 2017, lump sum payments are no longer able to be used to meet minimum pension requirements. As the end of the 2019/20 financial year approaches, and even though the minimum drawdown rates have been reduced, if the new reduced minimum pension amount has not yet been paid, and the cash holdings and/or cashflow of your fund have decreased (because for example the fund's investment income has reduced as a result of the COVID-19) it may be prudent to start considering how payments will be funded prior to the end of the year now.

Temporary Early Access to Super (TEAS)

A second superannuation measure that may assist you cope with the impact of COVID-19 is the temporary condition of release that may allow early access to your benefits. For further details about the eligibility criteria please refer to our previous article on accessing your super here. That article explores, not only TEAS but other conditions of release that may provide additional options to accessing superannuation.

As part of the application process, you are required to certify that you satisfy the eligibility criteria. You can apply for TEAS via your myGov account. If you don't have a myGov account or cannot access it, applications can be completed over the phone by contacting the ATO. Although you may not need to supply any supporting evidence of eligibility as part of the application, you will be required to maintain it on file in case you are asked to produce it at a later date.

After you have verified your identity, you will see a list of funds, along with the available balance in each account, that they can select to access benefits from. In the case of a new SMSF, which has yet to lodge its first annual return with the ATO, no balance will appear but that doesn't preclude you requesting an amount to be withdrawn from your SMSF.

In this situation, the determination issued by the ATO will stipulate the amount that can be withdrawn from the SMSF and it will be up to you, as the trustee of the SMSF, to determine if there are sufficient funds in your member account. You can choose up to five accounts but are limited to only one application in this financial year, and another application next financial year, as long as that application is made before 24 September 2020. Regardless of how many accounts are chosen, the maximum amount that can be accessed is $10,000 per application.

The ATO expects to issue notices of acceptance or rejection within four days but depending on volumes of applications may do so within one to two days. The main difference between SMSF and APRA fund members is that release authorities for APRA funds will be sent directly to the fund, whereas if you are an SMSF member you will receive any notifications directly from the ATO. You will then be required to supply the release authority to the trustees, in most circumstances this will be yourself.

Once a trustee receives a valid determination it is expected that payments are made as soon as practicable, as a single lump sum amount not exceeding the amount stated on the determination. A lower amount may be paid if your account balance is insufficient to cover the stated amount or you formally document a request to the trustee for a lower amount. However, you will be unable to request a top up of the remaining amount later.

The application process must be followed and a favourable determination must be issued by the ATO before you are able to access your SMSF benefits. Accessing benefits without meeting a condition of release may result in action being taken for illegal early access of benefits.

We are aware of strategies that involve members accessing their superannuation savings early under the TEAS and then recontributing the withdrawn amount back to their fund as either a salary sacrifice contribution or as a personal deductible contribution. The ATO has asked individuals, tax agents and businesses to be mindful that it is not acceptable to apply for relief payments where eligibility may be questionable. Applications for relief through stimulus measures which are based on artificial arrangements will see the ATO take swift action.

To stay on top of the latest news in relation to COVID-19 and SMSFs keep an eye on our articles on the SuperConcepts website here.

Anthony Cullen is an SMSF Technical Specialist at SuperConcepts, a sponsor of Firstlinks. This article is for general information purposes only and does not consider any individual's investment objectives.

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On the pandemic front line: Fisher & Paykel Healthcare

Mike Murray

Fisher & Paykel Healthcare stands out as a locally listed company that is playing a big role in the fight against COVID-19. It was also a stock that performed strongly during the recent market downturn.

Fisher & Paykel Healthcare Corporation Limited (FPH)

Source: ASX and Yahoo! Finance, as at 15 May 2020.

The Australian Ethical Charter requires us to invest in companies that contribute to human happiness and dignity. That means we actively seek out companies that have a positive impact on people's health and wellbeing. As a result, our portfolios tend to hold a higher proportion of healthcare companies compared with the benchmark.

Timing good for healthcare sector

There are also sound investment reasons to look for opportunities in healthcare. Companies in this sector tend to be fast growing with cashflows that are less susceptible to the economic cycle. They often have unique

intellectual property. Fisher & Paykel meets these criteria and has a long track record of innovation and growth, making a range of medical devices including life-saving devices for adults, children and premature babies.

The healthcare sector is in the spotlight now as it mobilises to meet the increased burden created by the COVID-19 pandemic. This new respiratory disease causes some patients to 'crash' without warning to a point where they need help breathing. These patients tend to be intubated (ie, have a tube inserted into their trachea) and are then hooked up to a mechanical ventilator that breathes for them. This procedure is known as 'invasive ventilation'. Tragically, some countries are so overwhelmed with cases that they simply do not have enough ventilators to go around.

Fisher & Paykel derives around 60% of its revenue from selling equipment and consumables to intensive care units (ICUs) and hospitals in the areas of invasive/non-invasive ventilation and respiratory support. When patients require invasive ventilation, the air needs to be moistened and warmed to body temperature and passed through tubes that minimise condensation. Fisher & Paykel is the world leader in these humidification systems.

The same humidification device also increasingly plays a role for patients who do not require invasive ventilation but do require some form of supplementary oxygen. These patients may either be in ICU or other parts of the hospital. The key innovation is the ability to deliver humidified oxygen at very high flow rates compared to standard oxygen therapy. Even prior to COVID-19, Fisher & Paykel were seeing strong uptake and growth in this 'high flow' technology platform where they are also the global leader.

Boost in demand

As ventilator suppliers rush to meet the increased medical demand, it is likely that this is boosting demand for Fisher & Paykel humidifiers. We expect Fisher & Paykel to rapidly scale up its production. Nasal high-flow is also likely to see increased demand, with one study of two hospitals in China finding that 63% of COVID-19 patients with severe acute respiratory failure were treated with high-flow oxygen therapy. As high-flow oxygen therapy is still a relatively new technology, it seems likely that the current crisis may speed up its growth even beyond the rapid uptake that was occurring prior to COVID-19.

Unsurprisingly, the share price of Fisher & Paykel has performed strongly over recent months and it is one of the top ASX 300 market performers this calendar year. However, unlike some other companies which have held up purely due to their defensive characteristics, Fisher & Paykel is playing a real and active role in mitigating the worst effects of the COVID-19 crisis. That's good for patients, good for society and ultimately good for investors.

Mike Murray is an investment analyst at Australian Ethical, a sponsor of Firstlinks. This article is for general information and does not consider the circumstances of any investor.

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